



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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November 14, 2005

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FROM: ChangMook Sohn, Executive Director
Economic and Revenue Forecast Council

SUBJECT: November 10, 2005 REVENUE COLLECTION REPORT

A healthy economy continues to generate more General Fund-State (GFS) tax than expected. General Fund-State (GFS) collections totaled \$1,134.0 million in the October 11–November 10, 2005 collection period. Collections were \$67.9 million (6.5 percent) more than the estimate for the period. Most major revenue sources were above the estimate for the month. Revenue act (retail sales, business and occupation, use and public utility) taxes, real estate excise tax payments, and “other” revenue (primarily unclaimed property transfers and brokered natural gas tax payments) accounted for most of this month’s variance. Cumulative in the two months since the last forecast, collections are \$97.1 million, 5.0 percent higher than expected. The strong collection numbers this month confirm that the economy appears to have easily weathered the post Katrina/Rita spike in gas prices.

Although the U.S. economy added only 56,000 jobs in October, less than most economists had expected, the September jobs number was revised up and the October unemployment rate dropped to 5.0 percent, the same as the pre Katrina/Rita rate in June and July. While the national employment numbers the last couple of months are a little murky due to the impacts of the hurricanes, the state job numbers are clearly positive. Non farm payroll jobs increased in October for the fourteenth consecutive month (excluding the impact of the machinists strike). Employment in the state grew at an annual rate of 2.8 percent in the third quarter (excluding the strike), double the 1.4 percent increase nationally. Despite the job gains, consumer confidence declined in both September and October and has dropped three of the last four months. While high energy prices have dampened confidence, a still strong real estate market has continued fuel strong spending. Consumers spending continues to outpace income and likely will result in a negative savings rate for the third quarter of 2005 (if so, this would be the first time ever the quarterly saving rate has been negative). The strong spending growth is still expected to decelerate; however, the magnitude and timing of a retrenchment remains uncertain

Revenue Act collections were \$17.2 million more than expected this month and are \$41.2 million higher than expected in the two months since the September forecast. Collections this month primarily reflect September 2005 activity of month taxpayers and third quarter activity of quarterly filers. Revenue Act growth remains very strong. This month Revenue Act receipts were 12.2 percent higher than a year-ago (adjusted for special factors). Growth was a little weaker than last month's 12.5 (revised) percent gain but better than the 11.4 percent gain two months ago. Revenue Act growth has averaged 12.0 percent in the last three months and 9.9 percent in the last twelve months. Revenue Act receipts continue to grow much faster than both U.S. retail sales and state personal income.

Industry detail for the October 11 to November 10, 2005 collection period based on preliminary payment data of 17,400 taxpayers who filed electronically shows some slowing in the retail trade sector but very strong growth elsewhere. Businesses in the retail trade and food services sector reported a 5.6 percent increase in tax payments this month. This was the weakest gain since last November. Last month this sector reported an 11.0 percent increase in tax payments. The slowdown in the retail trade sector was primarily due to weak auto sales, although tax payments by food stores were also weak. This month auto dealers reported a 0.9 percent decline in tax payment, after reporting double-digit increases the previous three months. Excluding auto dealers, tax payments from businesses in the retail trade sector were up 7.8 percent. Weaker tax payments from the auto and food sectors aside, other retail sectors remained strong. Double digit gains were reported by gasoline and convenience store retailers (+25.2 percent), furniture and home furnishing retailers (+12.0 percent), building materials/garden supply stores (+15.5 percent), non-store retailers (+11.1 percent), apparel stores (+10.2 percent) and miscellaneous retailers (+10.5 percent). Overall, tax payments by non-retail trade and food services business were 12.9 percent higher than a year ago, the strongest growth since April 2004. Last month this category reported a 9.2 percent increase. As was the case last month, most major sectors increased. Sectors with double digit increases include: construction (+19.0 percent), manufacturing (+31.5 percent), finance and insurance (+17.3 percent), transportation and warehousing (+16.6 percent) and professional, technical and scientific services (+19.4 percent). No major non retailing sector reported a decline in tax payments this month. The strong real estate market continues to fuel overall spending. Construction/real estate related sectors (construction, building materials/hardware, furniture and home furnishings, electronics and appliances) again grew much faster (+16.1 percent) than other sectors (+7.6 percent). This has been the case for eighteen of the last nineteen months.

Non-Revenue Act General Fund taxes were \$51.0 million more than the estimate for the month. Higher than expected real estate excise tax payments (+\$19.4 million), liquor taxes (+\$5.8), cigarette taxes (+\$370,000), property (+\$1.9 million) and "other" taxes (+\$24.9 million) more than offset weaker than expected estate tax payment (-\$1.3 million). The variance in the "other" category was primarily due to much higher than expected unclaimed property transfers and brokered natural gas tax payments. The majority of unclaimed property is transferred to the General Fund in October and November. Some of the unclaimed property variance this month is likely due to timing, although some

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of it reflects unexpected payments. The higher than expected brokered natural gas tax payments reflects the surge in natural gas prices and will likely continue.

There is no sign of any slowing of real estate activity despite slowly rising mortgage rates. Although a little higher than earlier in the year, mortgage rates are still historically low, credit is readily available and the economy continues to add jobs. These conditions continue to produce much stronger than expected real estate activity and real estate excise tax payments. Taxable real estate activity in the most recent month (closings in September which reflect tax payments to the state in October) were 45.5 percent higher than a year-ago, the strongest growth since January. Last month activity was up 38.4 percent while two months ago it increased 18.5 percent. The majority of the increase was again due to an increase in the value per transaction (+30.7 percent) however, growth of transactions was also strong, increasing 11.3 percent from the year-ago month. Last month the average value per transaction increased 21.0 percent while the number of transactions was up 14.4 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were very weak this month, \$292,000 below the estimate for the month. This shortfall was primarily due to an adjustment for overpayment in previous months. Cumulatively, in the two months since the September forecast, Department of Licensing collections are \$126,000 above the forecast. Collections this month include a transfer of lottery proceeds to the General Fund. The lottery GFS transfers totaled \$1.9 million, virtually the same as the estimate.

The attached Table 1 provides a comparison of collections with the September 2005 forecast for the October 11 – November 10, 2005 collection period and cumulative since the September forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

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Attachments

TABLE 1
Revenue Collection Report
November 10, 2005 Collections Compared to the September 2005 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
Oct. 11 - Nov. 10, 2005				
Department of Revenue-Total	\$1,063,957	\$1,132,113	\$68,156	6.4%
Revenue Act** (1)	935,348	952,536	17,188	1.8%
Non-Revenue Act(2)	128,609	179,577	50,968	39.6%
Liquor Sales/Liter	11,107	16,949	5,842	52.6%
Cigarette	4,085	4,456	370	9.1%
Property (State School Levy)	9,701	11,563	1,863	19.2%
Estate	1,335	(11)	(1,346)	NC
Real Estate Excise	67,299	86,652	19,353	28.8%
Timber (state share)	0	0	0	NA
Other	35,082	59,968	24,886	70.9%
Department of Licensing (2)	295	3	(292)	-99.0%
Lottery (5)	1,851	1,852	1	0.1%
Total General Fund-State***	\$1,066,103	\$1,133,968	\$67,866	6.4%
Cumulative Variance Since the September 2005 Forecast (Sept. 11, 2005 -Nov. 10, 2005)				
Department of Revenue-Total	\$1,948,482	2,045,405	96,923	5.0%
Revenue Act** (3)	1,726,520	1,767,767	41,247	2.4%
Non-Revenue Act(4)	221,962	277,638	55,676	25.1%
Liquor Sales/Liter	25,586	31,557	5,971	23.3%
Cigarette	8,349	9,280	931	11.2%
Property (State School Levy)	(2,045)	(821)	1,223	-59.8%
Estate	2,812	1,969	(842)	NA
Real Estate Excise	145,037	168,998	23,962	16.5%
Timber (state share)	0	0	0.0	NA
Other	42,224	66,655	24,431	57.9%
Department of Licensing (4)	746	872	126	16.9%
Lottery (5)	1,851	1,852	1	0.1%
Total General Fund-State***	\$1,951,079	\$2,048,129	\$97,050	5.0%

1 Collections October 11 - November 10, 2005. Collections primarily reflect September 2005 activity of monthly taxpayers and July-Sept. activity of quarterly filers.

2 October 1-31, 2005 collections.

3 Cumulative collections, estimates and variance since the September 2005 forecast; (September 11 - November 10, 2005) and revisions to history.

4 Cumulative collections, estimates and variance since the September 2005 forecast; (September and October 2005) and revisions to history

5 Lottery transfers to the General Fund

* Based on the September 2005 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
October 10, 2005 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections Preliminary</u>	<u>Revised</u>	<u>Difference Amount</u>	<u>Percent</u>
September 11 - October 10, 2005				
Department of Revenue-Total	\$913,292	\$913,292	(\$0)	-0.0%
Revenue Act (1)	815,231	815,231	0	0.0%
Non-Revenue Act(2)	98,061	98,061	(0)	-0.0%
Liquor Sales/Liter	14,608	14,608	(0)	-0.0%
Cigarette	4,824	4,824	0	0.0%
Property (State School Levy)-net	(12,386)	(12,386)	0	-0.0%
Property tax collections	9,701	9,701	0	0.0%
transfer to the Student Achievement Acct.	(22,087)	(22,087)	0	NA
Estate	1,980	1,980	0	0.0%
Real Estate Excise	82,346	82,346	0	0.0%
Timber (state share)	0	0	0	NA
Other	6,688	6,688	0	0.0%
Department of Licensing (2)	527	484	(43)	-8.1%
Lottery (2)	0	0	0	NA
Total General Fund-State***	913,819	913,776	(\$43)	-0.0%

Cumulative Receipts: September 11 - October 10, 2005 & Revisions to History

Department of Revenue-Total	\$913,292	\$913,292	(\$0)	-0.0%
Revenue Act (3)	815,231	815,231	0	0.0%
Non-Revenue Act(4)	98,061	98,061	(0)	-0.0%
Liquor Sales/Liter	14,608	14,608	(0)	-0.0%
Cigarette	4,824	4,824	0	0.0%
Property (State School Levy)-net after transfer	(12,386)	(12,385)	1	-0.0%
Estate	1,981	1,980	(1)	-0.1%
Real Estate Excise	82,346	82,346	0	0.0%
Timber (state share)	0	0	0	NA
Other	6,687	6,687	0	0.0%
Department of Licensing (4)	912	869	(43)	-4.7%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$914,204	\$914,161	(\$43)	-0.0%

Preliminary. Reported in the October 10, 2005 collection report.

1 Collections Sept. 11 - Oct. 10, 2005. Collections primarily reflect August 2005 business activity of monthly taxpayers.

2 September 1-30, 2005 collections.

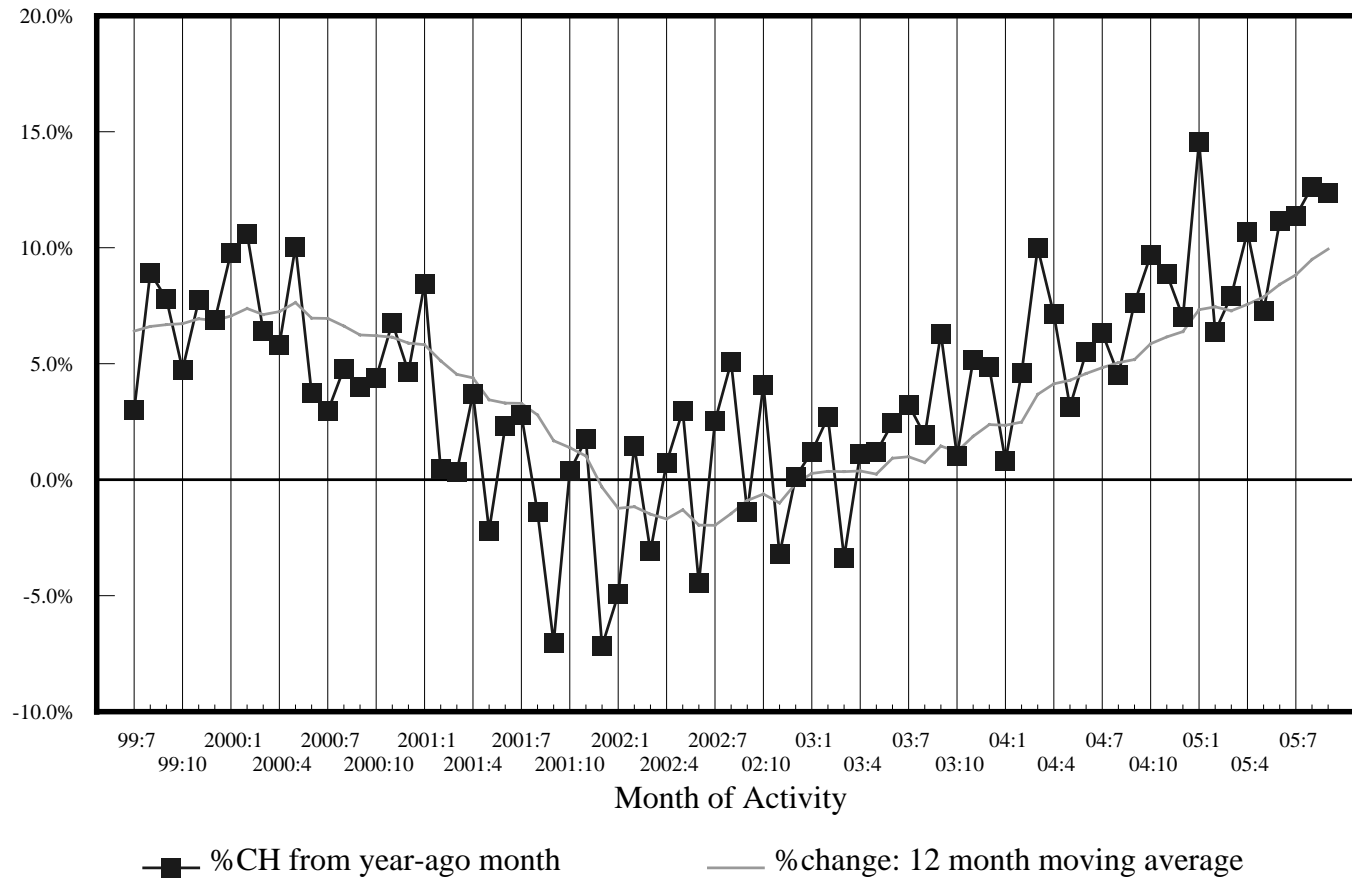
3 Cumulative receipts since the September 2005 forecast: Sept. 11-Oct. 10, 2005 & revisions to history.

4 Cumulative receipts since the September 2005 forecast (September 2005) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections*

Year-over-Year Percent Change



* Adjusted for new legislation and special factors